SIMULATIONS PLUS INC
Form 10QSB
July 15, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 2008 or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1937

For the transition period from _____ to _____

Commission file number: 001-32046

SIMULATIONS PLUS, INC.
(Name of small business issuer in its charter)

CALIFORNIA	95-4595609
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer identification No.)

42505 10TH STREET WEST
LANCASTER, CA 93534-7059
(Address of principal executive offices including zip code)

(661) 723-7723
(Issuer's telephone number, including area code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No

The number of shares outstanding of the Issuer's common stock, par value $0.001 per share, as of July 14, 2008, was 16,231,400.

SIMULATIONS PLUS, INC.
FORM 10-QSB
FOR THE QUARTERLY PERIOD ENDED MAY 31, 2008

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PART I. FINANCIAL INFORMATION

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
at May 31, 2008
(Unaudited)

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 5,986,029
Accounts receivable, net of allowance for doubtful accounts and estimated contractual discounts of $182,076	2,860,769
Inventory	260,228
Prepaid expenses and other current assets	118,675
Deferred income taxes	169,300

Total current assets	9,395,001
CAPITALIZED COMPUTER SOFTWARE DEVELOPMENT COSTS, net of accumulated amortization of $3,192,102	1,788,268
PROPERTY AND EQUIPMENT, net of accumulated amortization of $544,356 (Note 3)	101,207
CUSTOMER RELATIONSHIPS, net of accumulated amortization of $79,169	48,873
OTHER ASSETS	20,527
TOTAL ASSETS	$11,353,876

The accompanying notes are an integral part of these financial statements.

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
at May 31, 2008
(Unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	$ 269,724
Accrued payroll and other expenses	576,031
Accrued bonuses to officers	60,000
Accrued warranty and service costs	32,065
Deferred revenue	3,200
Total current liabilities	941,020
DEFERRED INCOME TAXES	723,300
Total liabilities	1,664,320
COMMITMENTS AND CONTINGENCIES (Note 4)	--
SHAREHOLDERS' EQUITY (Note 5)	
Preferred stock, $0.001 par value	
10,000,000 shares authorized	
no shares issued and outstanding	--
Common stock, $0.001 par value	
50,000,000 shares authorized	
16,228,900 shares issued and outstanding	4,700
Additional paid-in capital	6,267,570
Retained Earnings	3,417,286
Total shareholders' equity	9,689,556

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$11,353,876

The accompanying notes are an integral part of these financial statements.

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	Three months ended	
	2008	2007
NET SALES	$ 2,968,353	$ 2,631,225
COST OF SALES	623,756	550,786
GROSS PROFIT	2,344,597	2,080,439
OPERATING EXPENSES		
Selling, general, and administrative	941,982	885,352
Research and development	222,241	226,749
Total operating expenses	1,164,223	1,112,101
INCOME (LOSS) FROM OPERATIONS	1,180,374	968,338
OTHER INCOME (EXPENSE)		
Interest income	54,492	35,377
Miscellaneous income	10	25
Interest expense	(67)	(4)
Gain on sale of assets	--	--
Unrealized Gain (loss) on investment	(57,925)	
Gain on currency exchange	11,098	(798)
Total other income (expense)	7,608	34,600
INCOME BEFORE BENEFIT FROM (PROVISION FOR) INCOME TAXES	1,187,982	1,002,938
BENEFIT FROM (PROVISION FOR) INCOME TAXES		
Provision for income tax	(435,321)	(220,646)

Total benefit from (provision for) income taxes	(435,321)	(220,646)
NET INCOME	$ 752,661	$ 782,292
BASIC EARNINGS PER SHARE	$ 0.05	$ 0.05
Diluted earnings per share	$ 0.04	$ 0.04
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING		
BASIC	16,228,900	15,436,360
DILUTED	17,868,750	18,361,258

* The number of shares at May 31, 2007 have been retroactively restated to reflect a 2-for-1 stock split that occurred on October 1, 2007.

The accompanying notes are an integral part of these financial statem

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the nine months ended May 31,
(Unaudited)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,560,731	$ 1,523,363
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	40,460	37,588
Amortization of customer relationships	19,823	24,312
Amortization of capitalized software development costs	334,509	323,788
Bad debt expense	62,947	48,000
Stock-based compensation	52,540	13,248
Contribution of Equipment at book value	--	774
(Gain) on sale of assets	--	(3,102)
(Increase) decrease in		
Accounts receivable	(816,044)	(1,184,510)
Inventory	(29,314)	(23,520)
Deferred tax	567,400	429,666
Other assets	(47,088)	34,214
Increase (decrease) in		
Accounts payable	68,478	(126,680)
Accrued payroll and other expenses	1,666	140,949
Accrued bonuses to officers	(141,289)	67,196

Accrued income taxes	11,453	(1,600)
Accrued warranty and service costs	(6,103)	4,874
Deferred revenue	3,200	6,373
Net cash provided by operating activities	1,683,369	1,314,933
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(67,775)	(46,273)
Proceeds from sale of assets	16,011	4,475
Capitalized computer software development costs	(594,967)	(396,794)
Net cash used in investing activities	(646,731)	(438,592)

The accompanying notes are an integral part of these financial statements.

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the nine months ended May 31,
(Unaudited)

CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the exercise of stock options	411,677	476,801
Net cash provided by financing activities	411,677	476,801
Net increase (decrease) in cash and cash equivalents	$ 1,448,315	$ 1,353,142
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,537,714	1,685,036
CASH AND CASH EQUIVALENTS, END OF QUARTER	$ 5,986,029	$ 3,038,178
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
INTEREST PAID	$ 67	$ 4
INCOME TAXES PAID	$ 180,000	$ 1,600

The accompanying notes are an integral part of these financial statements.

SIMULATIONS PLUS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1: GENERAL

This report on Form 10-QSB for the quarter ended May 31, 2008, should be read in conjunction with the Company's annual report on Form 10-KSB for the year ended August 31, 2007, filed with the SEC on November 26, 2007. As contemplated by the Securities and Exchange Commission under Item 310(b) of Regulation S-B, the accompanying financial statements and footnotes have been condensed and therefore do not contain all disclosures required by generally accepted accounting principles. The interim financial data are unaudited; however, in the opinion of Simulations Plus, Inc. ("we", "our", "us"), the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. Results for interim periods are not necessarily indicative of those to be expected for the full year.

Note 2: SIGNIFICANT ACCOUNTING POLICIES

Estimates

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Actual results could differ from those estimates. Significant accounting policies for us include revenue recognition, accounting for capitalized software development costs, and accounting for income taxes.

Principles of Consolidation

The consolidated financial statements include the accounts of Simulations Plus, Inc. and its wholly owned subsidiary, Words+, Inc. All significant intercompany accounts and transactions are eliminated in consolidation.

Revenue Recognition

We recognize revenue related to software licenses and software maintenance in accordance with the American Institute of Certified Public Accountants ("AICPA") Statements of Position (SOP) No. 97-2, "Software Revenue Recognition." Product revenue is recorded at the time of unlocking the software on the customer's computer(s), net of estimated allowances and returns. Post-contract customer support ("PCS") obligations are insignificant; therefore, revenue for PCS is recognized at the same time, and the costs of providing such support services are accrued and amortized over the obligation period.

As a by-product of ongoing improvements and upgrades to our software, some modifications are provided to customers, who have already licensed software, at no additional charge. We consider these modifications to be minimal, as they are not changing the basic functionality or utility of the software, but rather

adding convenience, such as being able to plot some additional variable on a graph in addition to the numerous variables that had been available before. Such software modifications for any single product have been typically once or twice per year, sometimes more, sometimes less. Thus, they are infrequent. We provide, for a fee, additional training and service calls to our customers and recognize revenue at the time the training or service call is provided.

We enter into one-year license agreements with most of our customers for the use of our pharmaceutical software products. However, from time to time, we enter into multi-year license agreements. We now unlock and invoice software one year at a time for multi-year licenses. Therefore, revenue is now recognized one year at a time.

Cash and Cash Equivalents

For purposes of the statements of cash flows, we consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our customers are unable to make required payments. We specifically analyze the age of customer balances, historical bad debt experience, customer credit-worthiness, and changes in customer payment terms when making estimates of the uncollectability of our trade accounts receivable balances. If we determine that the financial conditions of any of our customers deteriorated, whether due to customer-specific or general economic issues, an increase in the allowance may be made. Accounts receivable are written off when all collection attempts have failed. We also maintain an allowance for contractual discounts with insurance companies. Each reporting period, the estimated discounts are recorded as Sales Discounts.

Inventory

Inventory is stated at the lower of cost (first-in, first-out basis) or market and consists primarily of computers and peripheral computer equipment.

Capitalized Computer Software Development Costs

Software development costs are capitalized in accordance with SFAS No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased, or otherwise Marketed." Capitalization of software development costs begins upon the establishment of technological feasibility and is discontinued when the product is available for sale.

The establishment of technological feasibility and the ongoing assessment for recoverability of capitalized software development costs require considerable judgment by management with respect to certain external factors including, but not limited to, technological feasibility, anticipated future gross revenues, estimated economic life, and changes in software and hardware technologies. Capitalized software development costs are comprised primarily of salaries and direct payroll-related costs and the purchase of existing software to be used in our software products.

Amortization of capitalized software development costs is provided on a

product-by-product basis on the straight-line method over the estimated economic life of the products (not to exceed five years). Amortization of software development costs amounted to $334,509 and $323,788 for the nine months ended May 31, 2008 and May 31, 2007, respectively. We expect future amortization expense more likely to increase due to increases in capitalized computer software development costs.

We test capitalized computer software costs for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable within a reasonable time.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the estimated useful lives as follows:

Equipment	5 years
Computer equipment	3 to 7 years
Furniture and fixtures	5 to 7 years
Leasehold improvements	5 years

Maintenance and minor replacements are charged to expense as incurred. Gains and losses on disposals are included in the results of operations.

Fair Value of Financial Instruments

For certain of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued payroll and other expenses, accrued bonuses to officers, and accrued warranty and service costs, the carrying amounts approximate fair value due to their short maturities.

Shipping and Handling

Shipping and handling costs, recorded as cost of sales, amounted to $78,986 and $77,565 for the nine months ended May 31, 2008 and May 31, 2007, respectively.

Research and Development Costs

Research and development costs are charged to expense as incurred until technological feasibility has been established. These costs consist primarily of salaries and direct payroll-related costs. It also includes purchased software which was developed by other companies and incorporated into, or used in the development of, our final products.

Income Taxes

The Company utilizes SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for expected future tax consequences of events that have been included in the financial statements or tax returns.

Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are

expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities.

The evaluation of the deferred tax assets is based on our history of generating taxable profits and our projections of future profits as well as expected future tax rates to determine if the realization of the deferred tax asset is more-likely-than-not. Significant judgment is required in these evaluations, and differences in future results from our estimates could result in material differences in the realization of these assets.

Customer Relationships

The Company purchased customer relationships as a part of the acquisition of certain assets of Bioreason, Inc. in November 2005. Customer relationships was recorded at a cost of $128,042, and is being amortized over 78 months under the sum-of-the-years'-digits method. Amortization expense for the nine months ended and accumulated amortization as of May 31, 2008 and May 31, 2007 amounted to $19,823 and $24,312, respectively, and $79,169 and $51,990, respectively.

Earnings per Share

The Company reports earnings per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The components of basic and diluted earnings per share for the nine months ended May 31, 2008 and May 31, 2007 were as follows (the number of shares at 05/31/2007 reflects the effect of a 2-for-1 stock split on October 1, 2007 for comparison purposes):

	05/31/2008	05/31/2007
Numerator		
Net income (loss) attributable to common shareholders	$ 1,560,731	$ 1,523,363
Denominator		
Weighted-average number of common shares outstanding during the year	16,090,239	15,123,248
Dilutive effect of stock options	2,176,527	2,664,516
Common stock and common stock equivalents used for diluted earning per share	18,266,766	17,625,312

Stock-Based Compensation

The Company accounts for Stock-Based compensation in accordance with SFAS No. 123R using the modified prospective method. Under this method, compensation cost

recognized during the nine months ended May 31, 2008 includes: (1) compensation cost for all share-based payments granted prior to, but not yet vested as of September 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 amortized over the options' vesting period, and (2) compensation cost for all share-based payments granted subsequent to September 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R amortized on a straight-line basis over the options' vesting period. Our stock-based compensation expenses were $52,540 and $13,248 for the nine months ended May 31, 2008 and May 31, 2007, respectively, and are included in the condensed consolidated statements of operations as Salaries and Wages, Consulting, and Research and Development expense.

Concentrations and Uncertainties

International sales accounted for 40% and 38% of net sales for the nine months ended May 31, 2008 and May 31, 2007, respectively. For Simulations Plus, Inc., two customers accounted for 15% and 9% of net sales during the nine months ended May 31, 2008, compared with two customers accounting for 14% and 9% of net sales during the same period in FY07. For Words+, Inc., one government agency accounted for 22%, and one customer accounted for 15% of net sales during the nine months ended May 31, 2008, compared with one government agency accounting for 23%, and one customer accounting for 14% of net sales during the same period in FY07.

The Company operates in the computer software industry, which is highly competitive and changes rapidly. The Company's operating results could be significantly affected by its ability to develop new products and find new distribution channels for new and existing products.

For Simulations Plus, three customers comprised 22%, 19%, and 17% of its accounts receivable at May 31, 2008, and three customers comprised 18%, 16%, and 15% of accounts receivable at May 31, 2007. For Words+, one government agency comprised 35% and 37% of its accounts receivable at May 31, 2008 and 2007, respectively.

The Company's subsidiary, Words+, Inc., purchases components for its main computer products from three manufacturers. Words+, Inc. also uses a number of pictographic symbols that are used in its software products which are licensed from a third party. The inability of the Company to obtain computers used in its products or to renew its licensing agreement to use pictographic symbols could negatively impact the Company's financial position, results of operations, and cash flows.

Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. The provisions of FIN 48 were effective for the Company on September 1, 2007. The adoption of FIN 48 did not have a material impact on our consolidated financial statements.

Note 3: PROPERTY AND EQUIPMENT

Furniture and equipment as of May 31, 2008 consisted of the following:

Equipment	$ 173,793
Computer equipment	334,605
Furniture and fixtures	61,498
Automobile	21,769
Leasehold improvements	53,898
Sub total	645,563
Less: Accumulated depreciation and amortization	(544,356)
Net Book Value	101,207

Note 4: COMMITMENTS AND CONTINGENCIES

Employee Agreement

On August 9, 2007, the Company entered into an employment agreement with its President/Chief Executive Officer that expires in August 2009. The employment agreement provides for an annual salary of $250,000. At the CEO's request, this new agreement does not include an annual bonus, which has ranged up to $150,000 in all previous agreements. Thus, a savings to the Company of up to $75,000 per year may be realized as a result of this new agreement. The agreement also provides that the Company may terminate the agreement upon 30 days' written notice if termination is without cause. The Company's only obligation would be to pay its President the greater of a) 12 months salary or b) the remainder of the term of the employment agreement from the date of notice of termination.

Litigation

On April 6, 2006 we received notice from a liquidator for the former French subsidiary of Bioreason (Bioreason SARL), saying that the liquidator had initiated legal action against Simulations Plus in the French courts with respect to ClassPharmer distribution rights to European customers, and is claiming commissions and legal fees with respect to European customers. We filed a counterclaim for our rights and lost sales against Bioreason SARL's assets by sending a debt recovery declaration to the liquidator on June 15, 2006.

On April 9, 2008, we have received the approval of the settlement agreement from the commercial division of French Ordinary Court. This means that the settlement agreement is now enforceable, and this case is finally closed. Both parties dropped all claims and we are not liable for any amounts.

Note 5: STOCKHOLDERS' EQUITY

Stock Option Plan

In September 1996, the Board of Directors adopted and the shareholders approved the 1996 Stock Option Plan (the "Option Plan") under which a total of 250,000 shares of common stock had been reserved for issuance. In March 1999, the shareholders approved an increase in the number of shares that may be granted under the Option Plan to 500,000. In February 2000, the shareholders approved an increase in the number of shares that may be granted under the Option Plan to 1,000,000. In December 2000, the shareholders approved an increase in the number of shares that may be granted under the Option Plan to 1,250,000. Furthermore, in February 2005, the shareholders approved an additional 250,000 shares,

resulting to the total number of shares that may be granted under the Option Plan to 1,500,000. All of the preceding numbers of options are based on numbers of options prior to the two-for-one stock split on August 14, 2006. The 1996 Stock Option Plan terminated in September 2006 at the end of its term.

On February 23, 2007, the Board of Directors adopted and the shareholders approved the 2007 Stock Options Plan under which a total of 500,000 shares of common stock had been reserved for issuance.

The following table summarizes the stock option transactions. All of the numbers of options reflect a 2-for-1 stock split on August 14, 2006 and another 2-for-1 stock split on October 1, 2007.

	Number of Options	Weighted-Ave Exercise Pr Per Shar
Outstanding, August 31, 2007	3,209,736	$
Granted	287,000	$
Exercised	(467,500)	$
Expired/Cancelled	(245,700)	$
Outstanding, May 31, 2008	2,783,536	$
Exercisable, May 31, 2008	2,369,036	$

	Number Outstanding	Weighted Averag Fair Market Pri
Non Vested before 9/1/2007	170,000	
Granted	287,000	
Vested	(42,000)	
Cancelled	(500)	
Non Vested at 05/31/2008	414,500	

*Weighted Average Fair Market Price was calculated by using the Black-Scholes option valuation model, which was developed for use in estimating the fair value of traded options and do not have vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The weighted-average remaining contractual life of options outstanding issued under the Plan was 4.04 years at May 31, 2008. The exercise prices for the

options outstanding at May 31, 2008 ranged from $0.26 to $3.03, and the information relating to these options is as follows:

Exercise Price	Stock Options Outstanding	Stock Options Exercisable	Weighted-Average Remaining Contractual Life of Options Outstanding	Weighted-Ave Exercise Price of Options Outstandin
$0.26 - 0.50	1,003,936	1,003,936	2.28 years	$ 0
$0.51 - 0.75	814,000	814,000	1.70 years	$ 0
$0.76 - 1.25	679,100	551,100	7.05 years	$ 1
$1.26 - 3.03	286,500	0	9.71 years	$ 3
	2,783,536	2,369,036		

Other Stock Options

As of May 31, 2008, the independent members of the Board of Directors hold options to purchase 52,824 shares of common stock at exercise prices ranging from $0.30 to $6.68, which options were granted on or before May 31, 2008.

	Number of Options	Weighted average exercise price
Options Outstanding	52,824	$ 1.55
Options exercisable	40,024	$ 0.58

Note 6: SEGMENT AND GEOGRAPHIC REPORTING

We account for segments and geographic revenues in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." Our reportable segments are strategic business units that offer different products and services. Results for each segment and consolidated results are as follows for the nine months ended May 31, 2008 and May 31, 2007:

	May 31, 2008			
	Simulations Plus, Inc	Words +, Inc.	Eliminations	
Net Sales	4,962,725	2,169,112		
Income (loss) from operations	2,054,325	107,452		
Identifiable assets	10,824,788	2,211,834	(1,682,746)	
Capital expenditures	0	67,775		
Depreciation and Amortization	13,235	27,225		

	May 31, 2007			
	Simulations Plus, Inc	Words +, Inc.	Eliminations	
Net Sales	4,291,027	2,330,485		
Income (loss) from operations	1,731,961	135,172		
Identifiable assets	8,338,880	2,061,402	(1,782,297)	
Capital expenditures	15,709	30,564		
Depreciation and Amortization	15,003	23,564		

In addition, the Company allocates revenues to geographic areas based on the locations of its customers. Geographical revenues for the nine months ended May 31, 2008 and May 31, 2007 were as follows (in thousands):

	May 31, 2008				
	North America	Europe	Asia	Oceania	South America
Simulations Plus, Inc.	2,527	1,632	804	-0-	-0-
Words+, Inc.	1,778	336	22	31	2
Total	4,305	1,968	826	31	2

	May 31, 2007				
	North America	Europe	Asia	Oceania	South America
Simulations Plus, Inc.	2,182	1,341	767	-0-	1
Words+, Inc.	1,904	380	28	17	2
Total	4,086	1,721	795	17	3

Note 7: EMPLOYEE BENEFIT PLAN

We maintain a 401(K) Plan for all eligible employees. We make matching contributions equal to 100% of the employee's elective deferral, not to exceed 4% of total employee compensation. We can also elect to make a profit-sharing contribution. Contributions by the Company to this Plan amounted to $53,059 and $45,874 for the nine months ended May 31, 2008 and May 31, 2007, respectively.

Note 8: SUBSEQUENT EVENT

Since June 1, 2008, an additional 2,500 stock options to purchase shares have been exercised by employees that generated $1,400 in proceeds.

Item 2. Management's Discussion and Analysis or Plan of Operations

FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-QSB, OR THE "REPORT," ARE "FORWARD-LOOKING STATEMENTS." THESE FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS ABOUT THE PLANS, OBJECTIVES, EXPECTATIONS AND INTENTIONS OF SIMULATIONS PLUS, INC., A CALIFORNIA CORPORATION (REFERRED TO IN THIS REPORT AS THE "COMPANY") AND OTHER STATEMENTS CONTAINED IN THIS REPORT THAT ARE NOT HISTORICAL FACTS. FORWARD-LOOKING STATEMENTS IN THIS REPORT OR HEREAFTER INCLUDED IN OTHER PUBLICLY AVAILABLE DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, OR THE "COMMISSION," REPORTS TO OUR STOCKHOLDERS AND OTHER PUBLICLY AVAILABLE STATEMENTS ISSUED OR RELEASED BY US INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH COULD CAUSE OUR ACTUAL RESULTS, PERFORMANCE (FINANCIAL OR OPERATING) OR ACHIEVEMENTS TO DIFFER FROM THE FUTURE RESULTS, PERFORMANCE (FINANCIAL OR OPERATING) OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. SUCH FUTURE RESULTS ARE BASED UPON MANAGEMENT'S BEST ESTIMATES BASED UPON CURRENT CONDITIONS AND THE MOST RECENT RESULTS OF OPERATIONS. WHEN USED IN THIS REPORT, THE WORDS "EXPECT," "ANTICIPATE," "INTEND," "PLAN," "BELIEVE," "SEEK," "ESTIMATE" AND SIMILAR EXPRESSIONS ARE GENERALLY INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS, BECAUSE THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES. THERE ARE IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS, INCLUDING OUR PLANS, OBJECTIVES, EXPECTATIONS AND INTENTIONS AND OTHER FACTORS.

GENERAL

BUSINESS

Simulations Plus, Inc. (the "Company" or "Simulations Plus", or "we" or "our") and its wholly owned subsidiary, Words+, Inc. ("Words+") produce different types of products: (1) Simulations Plus, incorporated in 1996, develops and produces software for use in pharmaceutical research and for education, and also provides contract research services to the pharmaceutical industry, and (2) Words+, founded in 1981, produces computer software and specialized hardware for use by persons with disabilities, as well as a personal productivity software program called Abbreviate! for the retail market. For the purposes of this document, we sometimes refer to the two businesses as "Simulations Plus" when referring to the business that is primarily pharmaceutical software and services, and "Words+" when referring to the business that is primarily assistive technologies for persons with disabilities.

SIMULATIONS PLUS

PRODUCTS

We currently offer four software products for pharmaceutical research: ADMET Predictor(TM), ClassPharmer(TM), DDDPlus(TM), and GastroPlus(TM).

ADMET PREDICTOR

ADMET (Absorption, Distribution, Metabolism, Excretion and Toxicity) Predictor

consists of a library of statistically significant numerical models that predict various properties of chemical compounds from just their molecular structures. This capability means a chemist can merely draw a molecule diagram and get estimates of these properties, even though the molecule has never existed. Drug companies search through millions of such "virtual" molecular structures as they

attempt to find new drugs. The vast majority of these molecules are not suitable as medicines for various reasons. Some have such low solubility that they will not dissolve well, some have such low permeability through the intestinal wall that they will not be absorbed well, some degrade so quickly that they are not stable enough to have a useful shelf life, some bind to proteins (like albumin) in blood to such a high extent that little unbound drug is available to reach the target, and some will be toxic in various ways. Identification of such properties as early as possible enables researchers to eliminate poor compounds without spending time and money to make them and then run experiments to identify these weaknesses. Today, many molecules can be eliminated on the basis of computer predictions, such as those provided by ADMET Predictor.

Several studies have now been published that compare the predictive accuracy of software programs like ADMET Predictor. In each case, out of more than a dozen programs, ADMET Predictor has been ranked first in accuracy over all other programs (it was ranked second in one study, but that study was later redone with a more difficult set of test compounds and a newer version of ADMET Predictor, and it was then ranked first). No other software product was consistently in the top 4 in these studies. This is a remarkable accomplishment, considering the greater size and resources of many of our competitors.

ADMET Predictor includes ADMET Modeler(TM). ADMET Modeler was first released in July of 2003 as a separate product, and was integrated into ADMET Predictor in 2006. This powerful program automates the generation of predictive models used in ADMET Predictor in a small fraction of the time once required to build these models. For example, new toxicity models were developed in a matter of a few hours once we completed the tedious effort of "cleaning up" the databases (which often contain a significant number of errors). Prior to the availability of ADMET Modeler, we would have needed as much as three months for each new model after cleaning the databases to obtain similar results.

Pharmaceutical companies spend enormous amounts of money conducting a wide variety of experiments on new molecules each year. Using such data to build predictive models provides a second return on this investment; however, in the past, model-building has traditionally been a tedious activity that required a specialist. With ADMET Modeler, scientists without model-building experience can now use their own experimental data to quickly create high quality predictive models.

During this reporting period, improvement of ADMET Predictor/Modeler has continued. Phase I of our NIH SBIR (Small Business Innovation Research) grant was completed in December. Since then, we submitted our Phase II proposal on December 5, 2007. Although our Phase I study clearly demonstrated that we were able to generate partial atomic charges within molecules with excellent accuracy at a rate of millions of molecules per day, compared with traditional methods that require about one day per molecule, the proposal was returned unscored, with one reviewer providing a favorable review and another providing an unfavorable review. The unfavorable review included several statements that were incorrect, including that the accuracy of the partial charges produced by this

new method and the speed with which they are generated are not innovative. This is easily disproved, and we are working on our revised proposal, to be submitted at the next submittal date in August.

We released ADMET Predictor version 2.4 during March 2008, which incorporates the new Enslein Metabolism Module for the prediction of kinetic rate constants for metabolism via hydroxylation (the most common form of metabolism) by the five most common enzymes, which are known as CYP 450-1A2, -2C9, -2C19 and -3A4. To our knowledge, this is the first such capability available in a commercial

software product, and the predictions are based on a proprietary database developed by Enslein Research of Rochester, NY. This additional cost module was evaluated by industry scientists prior to release and received high praise for its utility and potential cost savings.

Version 2.4 also allows smaller companies to license separate modules when all the capabilities of the program are not required. The total price with all modules remains the same; however, we have received a number of requests to provide only limited capabilities at a lower price for some companies, and this new licensing approach is expected to increase sales by enabling smaller companies to license only the parts of the program that they need.

ADMET Predictor is compatible with the popular Pipeline Pilot(TM) software offered by SciTegic, a subsidiary of Accelrys. This software serves as a tool to allow chemists to run several different software programs in series to accomplish a set workflow for large numbers of molecules. In early discovery, chemists often work with hundreds of thousands or millions of "virtual" molecules - molecules that exist only in a computer. The chemist tries to decide which few molecules from these large "libraries" should be made and tested. Using Pipeline Pilot with ADMET Predictor (and ClassPharmer - see below), perhaps in conjunction with other software products, the chemist can create and screen very large libraries faster and more efficiently than running each program by itself.

After the end of this reporting period, we announced the release of Version 3.0, a major upgrade, on July 2, 2008. This version incorporates modifications that provide enhanced user convenience and data analysis capabilities in both ADMET Predictor and ADMET Modeler. A total of 14 new predictive models were also added, including five for intrinsic clearance by the five major metabolizing enzymes, eight for metabolic inhibition, and one new toxicity model. A powerful new graphics capability is included that allows users to visualize results in multiple dimensions. We added an improved genetic algorithm for automatically selecting the best molecular descriptors for modeling a particular molecular property. We have updated all of our models using the new partial charge descriptors developed under last year's SBIR grant from the NIH and further enhanced during the months since Phase I was completed. We have also obtained additional toxicity databases that will be used to extend the number of toxicity predictions in future versions. Tight integration with both GastroPlus and ClassPharmer has now been achieved. Licenses of ADMET Predictor have already been purchased by users who want the combined capabilities of GastroPlus or ClassPharmer with ADMET Predictor, but who do not need the full capabilities of ADMET Predictor/ADMET Modeler. The U.S. Food and Drug Administration was one of the first organizations to order GastroPlus with the new ADMET Predictor Module.

CLASSPHARMER

ClassPharmer continues to evolve into a more and more powerful tool for medicinal and computational chemists. Coupled with ADMET Predictor, the two provide an unmatched capability for chemists to search through huge libraries of compounds to find the most interesting classes and molecules that are active against a particular target. In addition, ClassPharmer with ADMET Predictor can take an interesting molecule and generate high quality analogs (similar molecules) using different algorithms to ensure that the new molecules are both active and that they are also acceptable in a variety of ADMET (Absorption, Distribution, Metabolism, Excretion and Toxicity) properties.

Improvements during the third quarter were focused on incorporating more new features requested by our users around the world, as well as adding other new capabilities identified in-house. ClassPharmer 4.5 was released on June 2, 2008. This new version added an expanded molecule design capability through tighter

integration with ADMET Predictor, detection of Activity/Property Cliffs, more powerful options for chemical reactions, and a number of new user convenience features.

ClassPharmer's molecule design capabilities provide ways for chemists to rapidly generate large numbers of novel chemical structures based on intelligence from compounds that have already been synthesized and tested, or from basic chemical reactions selected by the user. Export of results is available in Microsoft Excel(TM) format as well as other convenient file formats requested by users.

DDDPLUS

DDDPlus sales have continued to grow as formulation scientists recognize the value of this one-of-a-kind simulation software in their work. Improvements have been added to further enhance the value of this product to our customers. Numerous user convenience features have been added, as well as more sophisticated handling of dosage forms that incorporate multiple polymers for controlled release. Work on the next update of DDDPlus was begun during this quarter and is planned for release in the 4th quarter.

GASTROPLUS

GastroPlus continues to enjoy its "gold standard" status in the industry for its class of simulation software. It is used from early drug discovery through preclinical development and into early clinical trials. At an international conference in Shanghai, China, in May, Pfizer presented a scientific poster that described a two-year study in which Pfizer scientists compared all four PBPK (physiologically based pharmacokinetics) programs on the market for their ability to predict human pharmacokinetics from preclinical (animal and IN VITRO) data. The study was divided into two arms: intravenous and oral dosing. GastroPlus was ranked first in both arms. No other software was ranked consistently second or third, and one competitor was consistently last in both arms. This independent evaluation, which was accomplished via analysis of 21 Pfizer proprietary compounds with data all the way through human trials, provides the strongest possible validation of the utility of GastroPlus in pharmaceutical research and development.

The information provided through GastroPlus simulations guides project decisions

in various ways. Among the kinds of knowledge gained through such simulations are: (1) the best "first dose in human" for a new drug prior to Phase I trials, (2) whether a potential new drug compound is likely to be absorbed at high enough levels to achieve the desired blood concentrations needed for effective therapy, (3) whether the absorption process is affected by certain enzymes and transporter proteins in the intestinal tract that may cause the amount of drug reaching the blood to be very different from one region of the intestine to another, (4) when certain properties of a new compound are probably adequately estimated through computer ("IN SILICO") predictions or simple experiments rather than through more expensive and time-consuming IN VITRO or animal experiments, (5) what the likely variations in blood and tissue concentration levels of a new drug would be in a large population, in different age groups or in different ethnic groups, and (6) whether a new formulation for an existing approved drug is likely to demonstrate "bioequivalence" (equivalent blood concentration versus time) to the currently marketed dosage form in a human trial.

On May 19, 2008, we announced the release of GastroPlus version 6.0 - a major new release that includes several important improvements to the program. We improved the PKPlus(TM) Module to enable it to fit pharmacokinetic models to multiple data sets, including both intravenous and oral dosage forms. We made further improvements to the new sophisticated kidney model to simulate how drugs are cleared in urine. We added numerous convenience features requested by our users. We also added the ability of the program to track metabolites of a parent drug, including metabolites of metabolites, to as many levels as desired. This

is a significant new capability because it allows the user to predict how much of each metabolite will be generated, and into which tissues the metabolite is likely to partition. Some metabolites can be therapeutically active, while others can be toxic, so knowing how much is produced and where it goes is valuable information to assess the likelihood of both therapeutic and adverse effects.

Our marketing intelligence and reorder history indicate that GastroPlus continues to enjoy a dominant position in the number of users worldwide. In addition to virtually every major pharmaceutical company, licenses include a growing number of smaller pharmaceutical and biotech companies, generic drug companies, and drug delivery companies (companies that design the tablet or capsule for a drug compound that was developed by another company). Although these companies are smaller than the pharmaceutical giants, they can also save considerable time and money through simulation. We believe this part of the industry, which includes many hundreds of companies, represents major growth potential for GastroPlus. Our experience has been that the number of new companies adopting GastroPlus has been growing steadily, adding to the base of annual licenses each year.

CONTRACT RESEARCH AND CONSULTING SERVICES

Our recognized expertise in oral absorption and pharmacokinetics is evidenced by the fact that our staff members have been speakers or presenters at over 40 prestigious scientific meetings worldwide in the past three years. We frequently conduct contracted studies for customers who prefer to have studies run by our scientists rather than to license our software and train someone to use it. The demand for our consulting services has been increasing steadily, and we expect this trend to continue. Long-term collaborations and shorter-term consulting

contracts serve both to showcase our technologies and as a way to build and strengthen customer relationships.

For example, during this reporting period we further improved our ability to simulate absorption through the eye. This new route of administration required a significant amount of scientific investigation, programming changes, and actual data to validate the model equations. Scientists who work in ocular delivery at several customer sites have told us that they had not seen such a sophisticated capability before.

GOVERNMENT-FUNDED RESEARCH

We completed our Phase I SBIR effort and our proposal for a Phase II follow-on grant on the order of $750,000. SBIR grant funds provide the ability to expand staff and grow the product line without adversely affecting earnings, because the expenses associated with the efforts in the studies are funded largely, if not completely, through the grants. As noted above, our Phase II proposal was returned unscored, and we are currently preparing to resubmit in August with information that proves that the one unfavorable reviewer based their opinion on incorrect assumptions.

WORDS+ SUBSIDIARY

PRODUCTS

Our wholly owned subsidiary, Words+, Inc. has been an industry pioneer and technology leader for over 25 years in introducing and improving augmentative and alternative communication and computer access software and devices for disabled persons. We intend to continue to be at the forefront of the development of new products. We will continue to enhance our major software products, E Z Keys(TM) and Say-it! SAM(TM), as well as our growing line of hardware products. We are also considering acquisitions of other products, businesses and companies that are complementary to our existing augmentative and alternative communication and computer access business lines. We purchased the Say-it! SAM technologies from SAM Communications, LLC of San Diego in December 2003. This acquisition gave us our smallest, lightest augmentative communication

system, which is based on a Hewlett-Packard iPAQ personal digital assistant (PDA). PDA-based communication devices have been very successful in the augmentative communication market, and this technology purchase has enabled us to move into this market segment faster and at lower cost than developing the product ourselves. SAM-based products now account for a significant share of our growing Words+ revenues. Since the acquisition of the Say-it! SAM technologies, we have continued to add new functionality to the SAM software and to offer it on additional hardware platforms.

During this reporting period, sales of our new PDA-based (personal digital assistant based) Say-it! SAM augmentative communication device continued to be strong, contributing nicely to the highest quarter in our history.

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED MAY 31, 2008 AND MAY 31, 2007.

The following table sets forth our consolidated statements of operations (in thousands) and the percentages that such items bear to net sales:

	Three Months Ended		
	05/31/08		05/3
Net sales	$ 2,968	100%	$ 2,631
Cost of sales	624	21.0	551
Gross profit	2,344	79.0	2,080
Selling, general and administrative	942	31.7	885
Research and development	222	7.5	227
Total operating expenses	1,164	39.2	1,112
Income from operations	1,180	39.8	968
Other income	8	0.3	35
Net income before taxes	1,188	40.0	1,003
Provision for income taxes	(435)	(14.7)	(221)
Net income (loss)	$753	25.4%	$ 782

NET SALES

Both of our business units (Simulations Plus, Inc. and Words+, Inc.) reported new record high quarterly revenues during the third fiscal quarter of 2008 (3QFY08). Consolidated net sales increased $337,000, or 12.8%, to $2,968,000 in 3QFY08 from $2,631,000 in the third fiscal quarter of 2007 (3QFY07). Sales from our pharmaceutical and educational software increased approximately $316,000, or 19.0%; while our Words+, Inc. subsidiary's sales increased approximately $21,000, or 2.2%, for the quarter. We attribute the increase in pharmaceutical software sales primarily to increased licenses, both to new customers and for new modules and additional licenses to renewal customers.

We attribute the increase in Words+ sales primarily to an increase in sales of "Say-it! SAM", TuffTalker, MessageMate, and input devices. The increase in those products outweighed decreases in sales of "TuffTalker Plus" and "Freedom" products with EZKeys software, which is based on Windows XP. Two major AAC

manufacturers have introduced XP-based software in the market recently, resulting in new stiff competition for our XP-based products.

COST OF SALES

Consolidated cost of sales increased $73,000, or 13.2%, to $624,000 in 3QFY08 from $551,000 in 3QFY07; however, as a percentage, cost of sales in 3QFY08 increased only 0.1% to 21.0% from 20.9% in 3QFY07. For Simulations Plus, cost of sales increased $100,000, or 87.7%. As a percentage of revenue, cost of sales increased to 10.8% in 3QFY08 from 6.9% in 3QFY07. A significant portion of cost of sales for pharmaceutical software products is the systematic amortization of capitalized software development costs, which is an independent fixed cost rather than a variable cost related to sales. This amortization cost decreased approximately $6,000, or 6.7%, in 3QFY08 compared with 3QFY07. Another significant portion of cost of sales includes royalty payments, which increased approximately $106,000, in 3QFY08 compared with 3QFY07.

For Words+, cost of sales decreased $27,000, or 6.1%. Cost of sales also decreased as a percentage, by 3.6% between the third fiscal quarters of FY08 and FY07. We attribute the percentage decrease in cost of sales for Words+ primarily to the sales generated from products with higher margins as well as less revenue from products with high computer costs.

GROSS PROFIT

Consolidated gross profit increased $264,000, or 12.7%, to $2,344,000 in 3QFY08 from $2,080,000 in 3QFY07. We attribute this increase to the increase in sales of pharmaceutical software as well as Words+ products which outweighed the increase in cost of sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative (SG&A) expenses increased $57,000, or 6.4%, to $942,000 in 3QFY08 from $885,000 in 3QFY07. For Simulations Plus, SG&A increased $28,000, or 5.1%. As a percentage of sales, SG&A decreased to approximately 31.7% in 3QFY08 from approximately 33.6% in 3QFY07. The major increases in SG&A expenses were commissions, travel expenses, professional fee for tax credit research, and investor relations which outweighed decreases in hiring expense, and legal fees.

For Words+, SG&A expenses increased $29,000, or 8.3%, due primarily to increases in travels, bad debts, and contributions. These increases outweighed decreases in marketing consulting - a consultant became an employee, thus eliminating its fee, while sustaining payroll and payroll related expenses by consolidating some works.

RESEARCH AND DEVELOPMENT

We incurred approximately $428,000 of research and development costs for both companies during 3QFY08. Of this amount, $206,000 was capitalized and $222,000 was expensed. In 3QFY07, we incurred $357,000 of research and development costs, of which $130,000 was capitalized and $227,000 was expensed. The increase of $71,000, or 19.9%, in total research and development expenditures from 3QFY07 to 3QFY08 was due primarily to salaries of new hires for our Life Sciences Department as well as salary increases to existing staff in both business units.

OTHER INCOME (EXPENSE)

Net other income (expense) in 3QFY08 decreased by $27,000, or 78.0%, to $8,000 in 3QFY08 from $35,000 in 3QFY07. This is due primarily to an unrecognized loss incurred in Auction Rate Securities (ARS) held in our UBS Financial Services Inc. (UBS) account. Under current market conditions, UBS, along with many firms in the industry, are no longer considering ARS cash alternatives due to their

lack of liquidity, thus we are required to report this unrealized loss reflecting current market conditions. Investors should note that even when an auction fails to sell the security, issuers, mostly Municipal certificates issuers, remain obligated to pay interest and principal when due. No actual loss occurs unless the security is sold. The amount of unrealized loss for the 3QFY08 was $58,000, which outweighed the income derived from interest and gains on currency exchanges.

PROVISION FOR INCOME TAXES

The provision for income taxes increased by $215,000, or 97.3%, to $435,000 in 3QFY08 from $221,000 in 3QFY07 due primarily to an increased net income and a change in our estimated provision for income tax this year comparing with the same period last year.

NET INCOME

Consolidated net income decreased by $29,000, or 3.8%, to $753,000 in 3QFY08 from $782,000 in 3QFY07. We attribute this decrease in profit primarily to the increases in cost of sales, operating expenses, tax provision, and a decrease in other income which outweighed increases in revenue from both pharmaceutical software revenue and Words+ products.

COMPARISON OF NINE MONTHS ENDED MAY 31, 2008 AND MAY 31, 2007.

The following table sets forth our consolidated statements of operations (in thousands) and the percentages that such items bear to net sales:

	Nine months Ended		
	05/31/08		05/3
Net sales	$ 7,132	100%	$ 6,621
Cost of sales	1,565	21.9	1,549
Gross profit	5,567	78.1	5,072
Selling, general and administrative	2,705	37.9	2,578
Research and development	700	9.8	627
Total operating expenses	3,405	47.7	3,205
Income from operations	2,162	30.3	1,867
Other income	133	1.9	86
Net income before taxes	2,295	32.2	1,953
Provision for income taxes	(734)	(10.3)	(430)
Net income	$1,561	21.9%	$ 1,523

NET SALES

Consolidated net sales increased $511,000, or 7.7%, to $7,132,000 in the first nine months of fiscal year 2008 (FY08) from $6,621,000 in the first nine months of fiscal year 2007 (FY07). Our sales from pharmaceutical software and services increased approximately $672,000, or 15.7%; however, our Words+, Inc. subsidiary's sales decreased approximately $161,000, or 6.9%, for the first nine months of fiscal year 2008.

We attribute the increase in pharmaceutical software sales primarily to increased licenses, both to new customers and for new modules, additional licenses to renewal customers, and grants revenue from SBIR Phase I. We attribute the decrease in Words+ sales primarily to a decrease in "Freedom" and "TuffTalker Plus" products with EZKeys software which are based on Windows XP. The recent introduction of XP-based software to the market by two major AAC manufacturers has resulted in stiff competition for this type of product. Revenues from our "Say-it! SAM" products increased overall during the first nine months of FY08 compared with FY07; however, during the first two quarters, those increases were offset by the decline in Windows XP-based system revenues.

COST OF SALES

Consolidated cost of sales increased $16,000, or 1.0%, to $1,565,000 in the first nine months of FY08 from $1,549,000 in the first nine months of FY07; however, as a percentage of revenues, cost of sales decreased 1.5%. For Simulations Plus, cost of sales increased $168,000, or 37.3%, and as a percentage of revenue, cost of sales increased to 12.5% in the first nine months of FY08 from 10.5% in the first nine months of FY07. A significant portion of cost of sales for pharmaceutical software products is the systematic amortization of capitalized software development costs, which is an independent fixed cost rather than a variable cost related to sales. This amortization cost increased approximately $39,000, or 14.7%, in the first nine months of FY08 compared with the same period in FY07. Royalty expense increased approximately $130,000, or 69.3%, in the first nine months of FY08 compared with the same period in FY07.

For Words+, cost of sales decreased $152,000, or 13.9%. As a percentage of revenue, cost of sales decreased 3.5% between the first nine months of FY08 and FY07. We attribute the percentage decrease in cost of sales for Words+ primarily to sales from products with higher margins and less revenue from products with high cost computers for Windows XP-based systems.

GROSS PROFIT

Consolidated gross profit increased $495,000, or 9.7%, to $5,567,000 in the first nine months of FY08 from $5,072,000 in the first nine months of FY07. We attribute this increase to increased sales of pharmaceutical software which outweighed a slight decrease in gross profit from Words+ products.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative (SG&A) expenses increased $127,000, or 4.9%, to $2,705,000 in the first nine months of FY08 from $2,578,000 in the first nine months of FY07. For Simulations Plus, SG&A increased $97,000, or 6.2%; however, as a percentage of sales, SG&A decreased from approximately 36.3% in the first nine months of FY07 to approximately 33.3% in the first nine months of FY08. The major increases in SG&A expenses were health insurance, consultant fees for website redesign, investor relations,

professional fees for tax credit research, salaries, bonuses and payroll-related expenses such as 401K, and payroll taxes which outweighed a decrease in bad debts from one receivable from the purchased assets of Bioreason, and lower trade show expenses.

For Words+, SG&A expenses increased $30,000, or 2.9%; and as a percentage of sales, SG&A increased from approximately 43.8% in the first nine months of FY07 to approximately 48.4% in the first nine months of FY08. The major increases in SG&A expenses were travel, estimated bad debts, and salaries which outweighed decreases in consultant fees, commissions, supply, and telephone.

RESEARCH AND DEVELOPMENT

We incurred approximately $1,295,000 of research and development costs for both companies during the first nine months of FY08. Of this amount, $595,000 was capitalized and $700,000 was expensed. In the first nine months of FY07, we incurred $1,023,000 of research and development costs, of which $396,000 was capitalized and $627,000 was expensed. The increase of $272,000, or 26.6%, in total research and development expenditures from the first nine months of FY07 to the first nine months of FY08 was due primarily to salaries for new hires in Life Sciences and salary increases and bonuses to existing staff in both business units.

OTHER INCOME

Net other income in the first nine months of FY08 increased by $47,000, or 55.3%, from $86,000 to $133,000. This is due primarily to increased interest revenue from Money Market accounts and a gain on currency exchange from billing in foreign currencies at the request of our customers. Those increases outweighed the unrealized loss which was described above in three-month operations results.

PROVISION FOR INCOME TAXES

The provision for income taxes increased by $304,000, or 70.9%, to $734,000 in the first nine months of FY08 from $430,000 in the first nine months of FY07. This increase is due primarily to a change in estimated tax rate as discussed in the result of 3 months operation as well as increase in net income before tax.

NET INCOME (LOSS)

Consolidated net income increased by $38,000, or 2.5%, to $1,561,000 in the first nine months of FY08 from $1,523,000 in the first nine months of FY07. We attribute this increase in profit primarily to increases in revenue and other income which outweighed increases in operating expenses and the increased provision for income taxes, .

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of capital have been cash flows from our operations. We have achieved continuous positive operating cash flow in the last six fiscal years. We believe that our existing capital and anticipated funds from operations will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for the foreseeable future. Thereafter, if cash generated from operations is insufficient to satisfy our capital requirements, we may open a revolving line of credit with a bank, or we may have to sell

additional equity or debt securities or obtain expanded credit facilities. In the event such financing is needed in the future, there can be no assurance that such financing will be available to us, or, if available, that it will be in amounts and on terms acceptable to us. If cash flows from operations became insufficient to continue operations at the current level, and if no additional financing was obtained, then management would restructure the Company in a way to preserve its pharmaceutical and disability businesses while maintaining expenses within operating cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our risk from exposure to financial markets is limited to foreign exchange variances and fluctuations in interest rates. We may be subject to some foreign exchange risks. Most of our business transactions are in U.S. dollars, although we generate significant revenues from customers overseas. The exception is that we were compensated in Japanese yen by some Japanese customers. As a result, we experienced a small gain from currency exchange in the first nine months of FY08. In the future, if foreign currency transactions increase significantly, then we may mitigate this effect through foreign currency forward contracts whose market-to-market gains or losses are recorded in "Other Income or expense" at the time of the transaction. To date, exchange rate exposure has not resulted in a material impact.

Item 4. Controls and Procedures

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.
As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings.

(b) CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING.
There were no changes in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On April 6, 2006, we received notice from a liquidator for the former French subsidiary of Bioreason (Bioreason SARL), saying that the liquidator had initiated legal action against Simulations Plus in the French courts with respect to ClassPharmer distribution rights to European customers, and is claiming commissions and legal fees with respect to European customers. We have been working through our U.S. attorneys and a law firm in Paris. We have filed a counterclaim for our rights and lost sales against Bioreason SARL's assets by sending a debt recovery declaration to the liquidator on June 15, 2006.

On May 23, 2007, we received an e-mail from our French Lawyer that we had received a proposal for an amicable settlement, in which we would give up our claims if Bioreason SARL would agree to waive any claims against Simulations Plus. This proposal was accepted by phone by the lawyer of Bioreason SARL, and we signed the agreement which was submitted to the French court.

On July 13, 2007, we received another e-mail from our French Lawyer that the agent in charge of the liquidation of Bioreason SARL requested the hearing to be postponed until October 11, 2007, and her request was accepted by the French supervisory judge.

On October 31, our French Lawyer informed us that the hearing was again postponed until November 2007.

On April 9, 2008, we received the approval of the settlement agreement from the commercial division of French Ordinary Court. This means that the settlement agreement is now in force, and this case is finally closed. Both parties dropped all claims and we are not liable for any amounts.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on form 8-K

(a) Exhibits:

31.1 -2 Certification of Chief Executive Officer and Chief Financial Officer

32 Certification pursuant to Sec. 906 of the

Sarbanes-Oxley Act of 2002

SIGNATURE

In accordance with Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Lancaster, State of California, on July 14, 2008.

Simulations Plus, Inc.

Date: July 14, 2008 By: /s/ MOMOKO BERAN

Momoko Beran
Chief Financial Officer